PENSION BENEFITS AT THE CROSSROADS March 2006

ECCAA News

Elgin Community College Annuitants Association, a chapter of the State Universities Annuitants Association

The newly enacted health-care accounting rule may result in employers cutting health-care benefits, according to John Bauman, Executive Director of the Illinois Teachers Retirement System. What Bauman believes is likely to affect his system and its retirees would certainly have a similar effect on the State Universities Retirement System and its retirees, as well as all employees receiving health insurance benefits under a state benefit plan. "The impact is going to be huge," Bauman said recently.

The accounting rule, which requires the state to project total expected state costs for these benefits well into the future, is to be phased in over a three-year period. Unfortunately, this will be done while the state is struggling with severe budget problems, its huge pension funding deficits, and the rapidly escalating cost of health insurance.

Projecting the costs of Illinois' subsidized employee and retiree health care into the future, as required by the new health care accounting rule, will dramatize the huge cost of providing these insurance benefits. It will also alert taxpayers who are already resentful of public employees receiving this and other state benefits they believe cause their taxes to be so high. When the plan goes into effect in July 2007, unions fear that the effect on legislators and the general public may be to encourage any latent movement toward reducing employee and retiree health insurance benefits.

Looking forward to —
1. A meeting of ECCAA Board members and faculty and staff representatives in March. Date, time, and place to be announced . . . to clarify benefits issues directly affecting retirees, faculty, and staff; to discover means to facilitate interaction between the groups represented; and to invite direct faculty and staff participation in activities of ECCAA.
2. The Annual ECCAA Luncheon, to be scheduled for a date in April that is convenient for faculty, staff, and retirees.

Some Undesirable Outcomes. The employer provision of health-care benefits has been an important inducement for job seekers to sign on with employers offering them. Unfortunately, the percentage of large companies providing such benefits has dropped from 66% in 1998 to 33% last year. Two-tiered benefit schedules that reduce or eliminate benefits for new employees are becoming more common in both the private and public sectors.

The State University Annuitants Association (SUAA) has alerted its members to the possibility of cuts in health insurance benefits, following on the heels of the drastic cuts in pension funding this past year. There is reason to be wary of the legislators who have been indifferent to the effect the poor funding record has had on the stability of the pension systems. It is possible they would be the first to be easily influenced by the growing number of tax objectors and conclude that health insurance benefits must be cut.

Early Efforts for Coverage Fraught with Difficulty. Early efforts by retirees to obtain passage of legislation providing college retirees with a state health insurance plan similar to the plan covering state university retirees began in the 1980s with the efforts of the first and only Illinois community college retiree association, the Illinois

Community College Annuitants Association (ICCAA). Its board of directors met in the neighborhood of Wright Community College and was made up of retired faculty from Chicago area community colleges, but the organization was open to retirees from the other Illinois community colleges then in existence.

Efforts to obtain health insurance coverage for retirees received a significant boost from the newly formed ECC Retirees Association, which later became ECCAA, during the last few years of the 1980s, upon the retirement of some of ECC's first full-time faculty members. At this time SUAA was beginning to assist in the formation of college SUAA chapters in various parts of the state, and was able to lend support to these groups of retirees, who were eager to join the campaign for insurance coverage. Most notable was the work of Robert Harvey, of College of Du Page, to whom we are indebted for his strenuous effort and persistence.

ECC's retirees had begun to realize that the plan the college had made available to them was not suitable for many of the retirees. Among other problems, it provided no Medicare supplement, it was not subsidized by the college, and the premium costs were higher than many retirees could afford. Retirees feared that they would never see a state health insurance plan, but the persistence of a few leaders with the backing of many newly formed college chapters throughout the state finally paid off, with the passage of legislation in 1997 that created our College Insurance Plan.

Issues Have Grown in Complexity. Although up to now mainly satisfied with the decade-old health insurance plan provided by the state, community college retirees are mindful of new warnings from the media about the problem of the declining quality and increasing costs of health insurance throughout the nation. To those of us who were part of the group who retired in the 1980s, it seems strange that we seem about to face a similar struggle once more, but this time the issues have grown in complexity, for we now know for sure that what we heard many times from the 1980's on was true: our state budget is in terrible shape. And many taxpayers mistakenly feel we are the cause of the problem.

Help from Springfield Tardy. It is apparent that a large number of our taxpayers are not well informed about state and federal tax systems. This partially accounts for the slow pace of tax reform, the retention of antiquated methods of funding our educational system, and long periods of non- existent or minimal state contributions to its pension funds. In the meantime, little is being done to provide relief to the many financially stressed taxpayers and their school districts, where taxes on real estate have had to be raised to a level far out of proportion to many local taxpayers' ability to pay them.

This being an election year, our legislators are certainly not disposed to take on these matters in a rational manner. Some may skirt the real issues or over-simplify them and resort to mud-slinging instead. Governor Blagojevich has some very special reasons for concentrating his effort on getting re-elected, given his growing unpopularity among voters. His suggestions for increasing state revenue are considered pathetic, as have his suggestions for other reforms.

The governor's $665 million cut (41%) in pension contributions this year and large cuts next year seriously reduce the retirement system's ability to increase its funding level to what is required by law. By 2011 the annual required commitment by the state will be $3.6 billion. This will be more than twice the amount the state would have paid this year had the governor not insisted on huge cuts during the two consecutive years.

Capricious Solutions Proven Unworkable. Elsewhere, the search for solutions to the funding problems have brought mixed results. Many critics of traditional pension plans would prefer privatization of the pension systems, dependence on defined contribution 401 (k) plans, following in the footsteps of private employers. Some solutions have been drastic, such as Alaska's vote by legislators this year to close its public pension system to new employees. After the middle of this year new employees there will be under a defined contribution plan. California's Governor Schwarzenegger tried this and failed. A number of states have chosen to raise the age of retirement. In New York City, this was one cause of a strike which by now may have been resolved through workers agreeing to pay for a portion of their health insurance costs.

Public, Governor, Legislators Missing the Point. Many Illinois residents who criticize our retirement plans for being too costly are unaware of the bargain that taxpayers have been getting. Many are unaware of the large amount the state has failed to contribute to the pension system, relative to the large regular monthly contributions made by employees. (Illinois teachers' personal pension contribution rates are said to be the highest in the nation.) Also, many who criticize our pension funds assume, incorrectly, that all state employees will receive Social Security benefits upon retirement, in addition to their Illinois pensions.

What can one say about a state that has made it a practice over many years to drastically reduce its level of contributions to its pension plans and to contribute nothing during others? And since the state has not had to be responsible for paying the amount other employers normally are required to contribute for each employee covered by Social Security, what can any reasonable person conclude but that Illinois has run a cheap operation? Of course, there is the huge funding debt that has to be paid off. Or are there ways of getting out from under that, too? The answers are troubling.

So far there is little evidence that Blagojevich and state legislators are ready with constructive suggestions on ways to repair the Illinois budget, the problems of which get worse year by year, due in a large part to the state's delinquency in payment of pension contributions and, of course, its antiquated tax system. The legislature and the governor have turned down proposals to increase the Illinois income tax. This has been done in spite of the state's obviously inadequate and regressive flat 3% state income tax that forces local taxing districts to increase tax rates and assessed values of real estate and thereby overtax many of the people who are least able to pay.

Although other states set aside an additional 5.3% for post secondary education this year, Illinois found it necessary to decrease funding by 2.6%. West Virginia was the only state to cut a larger percentage than Illinois. The only other states to slash their funding or leave it at last year's rate were Tennessee, Missouri, and Mississippi. The key problems surrounding the inadequate funding of education and pension systems are likely to get lost in the upcoming elections. Evidence pertaining to scandals involving Governor Blagojevich is likely to take precedence over the reports of our state's financial problems, although the governor has publicly committed an extra $100 million to the Chicago Public Schools, which are facing a deficit of $328 million. This amount includes an upcoming pension payment bill of $70 million.

Governor Blagojevich seems distracted from the main concerns of the public, according to a recent public poll that shows education and the state budget, in this order, to be the primary public concerns. Polls show that fewer than half of Illinoisans support his big issues: universal healthcare for children and improvement of the infrastructure, which would be funded through the introduction of keno.

Issues Await End of Political Games. SUAA intends to provide more information regarding political candidates once issues pertaining to pensions, health insurance, and higher education become the topics of concern in Springfield. At present, gubernatorial candidates are mainly interested in matters pertaining to their own personality and the personalities of the other candidates; matters connected with their possible election in the March primary; and the wrongdoings of Governor Blagojevich. Perhaps fearing embarrassing questions, Blagojevich has refused to participate in candidate debates. So far, only Paul Mangieri, Democratic candidate for state treasurer, is the only person running for state office to profess his willingness to do his best to protect state pension funds, although he has not talked about what he would do if underfunding of the pension system is allowed to continue.

SUAA is not yet aware of any new bills that might affect pension benefits, and believes the elections will take precedence for a while over important financial matters that would affect retirees and employees. This delay provides some opportunity for state and local chapter legislative committees to make their initial contacts with legislators and for chapters deciding to form their own Political Influence Committees to get organized. SUAA has requested the names of chapter leaders of the PICs that are being formed and has also asked for information on the position of other chapters with respect to their intent to form their own PICs . Not much action from the legislature is expected on older pension bills this year.

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Much of the content of this newsletter has been created from reports supplied on a daily basis by SUAA. If you are equipped for email and internet, you can receive these reports, all of which have a direct bearing on our pension system(s), pension legislation, our public officials who create it, and the activities of SUAA.

The following address will get you to the source: http://www.suaa.org/SUAA. Click on "Action E-List"; then scan down to the blanks below, where you can make your request.

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We regret that unforeseen problems have caused a delay in the mailing of this issue of ECCAA news, one effect of which is the omission of some of the recent gubernatorial campaign news.

We have had to take on the additional responsibility of printing and distributing or mailing this issue out of consideration for the legal problems that the political content could cause for Elgin Community College.

The SUAA plan for the formation of political influence committees (PICs) will allow for the much needed creation of separate political venues for distribution of political news to our members and ECC staff and faculty.

The timing of planned events announced on page one has been and remains an uncertainty.

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